Exhibit No.:
Issue: *Depreciation*
Witness: *Derick A. Miles*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *ER-2016-0156*
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MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

ENGINEERING ANALYSIS UNIT

REBUTTAL TESTIMONY

OF

DERICK A. MILES, P.E.

KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NO. ER-2016-0156

Jefferson City, Missouri
August 2016

** **Denotes Highly Confidential Information** **

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Q. Please state your name and business address.

A. Derick A. Miles, P.O. Box 360, Jefferson City, MO 65102.

Q. By whom are you employed and in what capacity?

A. I am a Utility Regulatory Engineer II in the Engineering Analysis Unit with the Missouri Public Service Commission ("Commission" or "PSC").

Q. Please describe your work and educational background.

A. A copy of my work and educational experience was provided in Appendix 1 of Staff's Cost of Service Revenue Requirement Report.

Q. Are you the same Derick A. Miles that contributed to the Staff Cost of Service Report filed in this proceeding?

A. Yes, I am.

EXECUTIVE SUMMARY

Q. What is the purpose of your testimony?

A. The purpose of this testimony is to address the difference between Staff and KCP&L Greater Missouri Operations Company ("Company" or "GMO") Witness Mr. John J. Spanos, of the consulting firm Gannett Fleming, regarding the Company's requested depreciation rates.

RETIREMENT OF SIBLEY UNITS 1, 2, AND LAKE ROAD UNIT 4

Q. What are Sibley Units 1 and 2?

A. These are two steam-boiler generating units, with Sibley 1 being commissioned into service in 1960 and Sibley 2 in 1962. These units currently burn coal but the boilers for these two units are cyclone boilers capable of burning other fuels such as raw or pelletized biofuels.

Q. What is Lake Road Unit 4?

A. Lake Road 4 was once a dual fuel unit operating with coal and natural and was recently converted to natural gas in April of 2016. This unit began operating in 1967.

Q. Did Staff visit the Sibley plant?

A. Yes, Staff visited the Sibley Plant on Thursday, May 19, 2016. During this tour it was noted that all 3 Sibley Units were in a maintenance outage and were not operational. Sibley Unit 3 came back online during the late May/early June timeframe. During the visit, it was noted that the operational controls for Units 1 and 2 were being combined with Unit 3 in order to update the analog controls to digital controls. The fact that the controls for Units 1 and 2 were in the process of being updated is consistent with Units 1 and 2 having intended future use.

Q. Does Staff have any concerns with inconsistencies in GMO's representations concerning Sibley Units 1 and 2?

A. Yes. Staff has concerns regarding the need for GMO to invest in Sibley Units 1 and 2 when, according to the Depreciation Study provided to Staff, the units are being "retired" in the near future, namely 2019, according to the various documents provided to Staff.

Q. Did Staff visit the Lake Road plant?

A. Yes, Staff visited the Lake Road Plant on Wednesday, May 18, 2016. The Company estimates that Lake Road 4 will be retired in 2020, according to the Depreciation Study provided to Staff; however, the Company converted the facility to burn natural gas, and ceased burning coal as a fuel source in April of 2016. The 2020 retirement date is consistent

with the Company's most recent Integrated Resource Plan ("IRP") provided to Staff in Case No. EO-2015-0252, although the GMO Preferred Plan also states that changes in environmental rules will be monitored to ensure that this retirement will continue to be prudent. The Company announced on January 20, 2015, via a public press release,[1] that GMO will cease burning coal at three power plants. Sibley Units 1, 2, and Lake Road 6 (boiler 6/turbine 4) were on that list. That announcement is attached as Schedule DAM-r1. This announcement was silent as to the future use of alternative fuels at these plants. Additionally, the announcement did not address the treatment of these units for capacity purposes within the Southwest Power Pool.

Q. Why are retirement dates important in the determination of an annual depreciation accrual rate?

A. For the type of retirement study GMO has elected to use, a depreciation accrual rate will recover the cost of original plant installation plus net salvage of a period of estimated life established for that account. The dollars recovered from rate payers are accrued against the original cost until the dollars are fully repaid. However, plant is maintained throughout its actual life, which may exceed the estimated life of plant established for depreciation purposes.

Conversely, life of a plant can be shortened due to technological advancements or the plant simply may not directly meet current Federal or State regulations, a major component of the unit may fail that would be too costly to repair, or retirement of the plant may be necessary for compliance with larger Federal or State policy objectives that do not directly relate to the plant. Hence, the Depreciation Studies are required by Missouri Code of State Regulations 4 CSR 24 - 3.175 at least every five years. This requirement can mitigate any over or under-accrual of depreciation accounts, as rates can be adjusted accordingly. If the life of a plant is shortened, then depreciation rates (and thus expense) would increase.

[1] http://kcpl.com/about-kcpl/media-center/2015/january/kcpl-announces-plans-to-cease-burning-coal-at-three-plants

Q. Has GMO been consistent on its plans for Sibley Units 1 and 2 after 2019?

A. No. GMO's Depreciation Study indicates that Sibley Units 1 and 2 will be retired in 2020, but other documents, such as the GMO's IRP and the January 20, 2015, press release simply state that there will be a "cessation of coal." There seems to be uncertainties surrounding the use of the phrase "cessation of coal." Staff is concerned that the plant dollars would be collected and the Company subsequently would convert the plant to run on an alternative fuel source and continue to operate the plant past the retirement date assumed for the Company's Depreciation Study.

Q. Why are the retirement dates for Sibley Units 1, 2, and Lake Road 4 so important?

A. GMO's proposal to accelerate these retirement dates would increase GMO's revenue requirement by **_____ **. There are broad policy implications to accelerating retirement of a specific plant as part of a broader scheme or regulatory compliance such as the Clean Power Plan, as opposed to the mechanical or economic issues of that plant itself. There is also the inconsistency in GMO's statements as to whether the plant will be retired or simply held in its current state for use again should the market price of energy, the potential switch to an alternative fuel, or a change in regulatory policy cause GMO to resume operation of the facility.

Q. What is the annual depreciation expense suggested by the Company to be collected for the Sibley Units 1, 2, and Lake Road 4?

A. The Company is recommending depreciation accrual rates that result in annual depreciation expense of ** _____ ** for these 3 facilities, which makes up **_____ **of the annual depreciation expense requested for production plant accounts.

DEPRECIATION EXPENSE – TERMINAL NET SALVAGE

Q. How did Mr. Spanos derive his depreciation rates?

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A. Regulatory depreciation expense accruals presented in Mr. Spanos's direct testimony include two basic components: 1) original plant cost, and 2) net salvage. Net salvage is gross salvage minus the cost of removal. In this case, for production equipment, net salvage is differentiated into two parts, interim and terminal net salvage. Also in this case, the Company recommends that the terminal net salvage be further differentiated into a retirement portion and a dismantlement portion. GMO's witness Spanos has proposed depreciation rates for steam, solar, and combustion turbine electrical production equipment. These include the accrual of interim net salvage and the retirement portion of terminal net salvage.

Q. What is the difference between the Company's and Staff's recommended depreciation accrual rates in this case?

A. The current Commission-ordered rates produce an annual depreciation expense of ** _____ **, whereas the Company proposes an annual depreciation expense of approximately ** _____ **. Therefore, the Company is recommending an **_____ ** in annual depreciation expense over current Commission-ordered rates.

Q. Has Staff proposed a new set of depreciation rates for this case?

A. No, Staff recommends the existing Commission ordered depreciation rates remain in effect. GMO has not presented reliable evidence of a likely change in the retirement of any significant portion of these units for depreciation purposes, and has not addressed the concerns that are listed in the portion of the Staff's Cost of Service Report that I sponsored.

Q. In previous rate cases, has Staff's proposed depreciation accrual rates included the dismantlement portion of terminal net salvage?

A. No. Staff does not include the dismantlement portion of terminal net salvage in its determination of the depreciation accrual rates, in accordance with the Commission's Report

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and Order for The Empire District Electric Company, Case No. ER-2004-0570, dated March 10, 2005. The Commission stated on page 53 of the order in that case that "the Commission will not allow the accrual of any amount of Terminal Net Salvage for Production Plants."

STAFF RECOMMENDATIONS

Q. What are Staff's current recommendations?

A. Staff recommends the Commission order GMO to continue to use the depreciation rates in Schedule DAM-d1 that are attached in Staff's Cost of Service Report.

Q. Does this conclude your rebuttal testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement A General Rate Increase for Electric Service	))))	Case No. ER-2016-0156

AFFIDAVIT OF DERICK A. MILES, PE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW DERICK A. MILES, PE and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Rebuttal Testimony and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

DERICK A. MILES, PE

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 15th day of August, 2016.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070

Notary Public

KCP&L Announces Plans to Cease Burning Coal at Three Power Plants

1/20/2015

MEDIA CONTACT:
KCP&L 24-Hour Media Hotline
(816) 392-9455

KCP&L FURTHERS SUSTAINABILITY COMMITMENT BY ANNOUNCING PLANS TO CEASE BURNING COAL AT THREE POWER PLANTS

KANSAS CITY, Mo. (January 20, 2015) — Kansas City Power & Light Company (KCP&L) announced today that in the coming years it will no longer burn coal at three of its coal-fired power plants, Montrose Station, one of its units at Lake Road Station and two of its units at Sibley Station. This announcement furthers the company's commitment to a sustainable energy future and balanced generation portfolio. Lake Road's boiler already has the ability to burn natural gas and the company plans to operate on natural gas once it ceases coal combustion. In the coming years, KCP&L will make final decisions regarding whether to retire the units at Montrose and Sibley, or convert them to an alternative fuel source.

"After evaluating options for future environmental regulation compliance, ending coal use at these plants is the most cost effective and cleanest option for our customers," said Terry Bassham, President and CEO of Great Plains Energy and KCP&L. "By retiring or converting more than 700 megawatts of coal-fired generation, we'll take an even bigger step toward reducing emissions and improving the air quality in our region."

The decision comes in part as a result from recent Environmental Protection Agency (EPA) regulations, which would require KCP&L to make significant environmental upgrades in the coming years in order to continue burning coal at these power plants. While retrofitting our largest, newer coal-fired power plants was the most cost-effective way to comply with environmental regulations, the same cannot be said for the older, smaller units at Montrose, Lake Road and Sibley. Retiring or converting the units at Montrose, Lake Road and Sibley will be a more cost-effective way to meet environmental regulations.

Timeline for Coal Cessation:

Generating Unit:	Capacity:	In-Service Year:	Cease Coal Burning By:
Lake Road 6	96 MW	1967	December 31, 2016
Montrose 1	170 MW	1958	December 31, 2016
Sibley 1	48 MW	1960	December 31, 2019
Sibley 2	51 MW	1962	December 31, 2019
Montrose 2	164 MW	1960	December 31, 2021
Montrose 3	176 MW	1964	December 31, 2021

While this decision will impact employees at Montrose, Lake Road and Sibley, the utility does not anticipate that any employees will lose jobs as a result. KCP&L will find job opportunities within the company for displaced employees.

"For decades, coal has been a reliable, very low cost way to provide power to our customers, and is one reason why our rates are lower than the national average," said Bassham. "However, as our nation moves to a cleaner, more sustainable energy future, our industry is facing increasing environmental scrutiny and regulations, many of which are focused on coal-fired generation. Our commitment and focus is to move to a cleaner energy future for our region while balancing the cost impact to our customers."

Today's announcement is part of the utility's larger plan to provide cleaner energy to the region. KCP&L has the largest renewable energy and largest per capita energy efficiency portfolios of any investor-owned utility in the region. In addition, the utility recently made a number of new environmental investments and commitments, including the announcement of up to 400 MW of additional wind power and expanded energy-efficiency programs for customers.

For more information on KCP&L's sustainability efforts, visit www.kcpl.com/environment (http://www.kcpl.com/environment).

About Great Plains Energy:

Headquartered in Kansas City, Mo., Great Plains Energy Incorporated (NYSE: GXP) is the holding company of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company, two of the leading regulated providers of electricity in the Midwest. Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company use KCP&L as a brand name. More information about the companies is available on the Internet at: www.greatplainsenergy.com (http://www.greatplainsenergy.com/) or www.kcpl.com (http://www.kcpl.com/).

Forward-Looking Statements:

Statements made in this release that are not based on historical facts are forward-looking, may involve risks and uncertainties, and are intended to be as of the date when made. Forward-looking statements include, but are not limited to, the outcome of regulatory proceedings, cost estimates of capital projects and other matters affecting future operations. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Great Plains Energy and KCP&L are providing a number of important factors that could cause actual results to differ materially from the provided forward-looking information. These important factors include: future economic conditions in regional, national and international markets and their effects on sales, prices and costs; prices and availability of electricity in regional and national wholesale markets; market perception of the energy industry, Great Plains Energy and KCP&L; changes in business strategy, operations or development plans; the outcome of contract negotiations for goods and services; effects of current or proposed state and federal legislative and regulatory actions or developments, including, but not limited to, deregulation, re-regulation and restructuring of the electric utility industry; decisions of regulators regarding rates the Companies can charge for electricity; adverse changes in applicable laws, regulations, rules, principles or practices governing tax, accounting and environmental matters including, but not limited to, air and water quality; financial market conditions and performance including, but not limited to, changes in interest rates and credit spreads and in availability and cost of capital and the effects on nuclear decommissioning trust and pension plan assets and costs; impairments of long-lived assets or goodwill; credit ratings; inflation rates; effectiveness of risk management policies and procedures and the ability of counterparties to satisfy their contractual commitments; impact of terrorist acts, including but not limited to cyber terrorism; ability to carry out marketing and sales plans; weather conditions including, but not limited to, weather-related damage and their effects on sales, prices and costs; cost, availability, quality and deliverability of fuel; the inherent uncertainties in estimating the effects of weather, economic conditions and other factors on customer consumption and financial results; ability to achieve generation goals and the occurrence and duration of planned and unplanned generation outages; delays in the anticipated in-service dates and cost increases of generation, transmission, distribution or other projects; Great Plains Energy's ability to successfully manage transmission joint venture; the inherent risks associated with the ownership and operation of a nuclear facility including, but not limited to, environmental, health, safety, regulatory and financial risks; workforce risks, including, but not limited to, increased costs of retirement, health care and other benefits; and other risks and uncertainties.

This list of factors is not all-inclusive because it is not possible to predict all factors. Other risk factors are detailed from time to time in Great Plains Energy's and KCP&L's quarterly reports on Form 10-Q and annual report on Form 10-K filed with the Securities and Exchange Commission. Each forward-looking statement speaks only as of the date of the particular statement. Great Plains Energy and KCP&L undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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